

**BOARD OF INVESTMENT TRUSTEES
MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS**

MINUTES – OPEN SESSION

September 18, 2009
101 Monroe Street, 15th floor
Rockville, Maryland

Board Members Present: Kelda Simpson, Chair
 Gino Renne
 Meg Menke
 Steve Farber
 Jeff Buddle
 Joe Adler
 Joe Beach
 Jeff Sharpe
 Jennifer Barrett
 George Willie
 Sunil Pandya
 Walt Bader

Staff: Linda Herman
 Marc Esen
 Brad Stelzer
 Stuart Potter

Others Present: Mark Brubaker, Wilshire Associates
 Mike Dudkowski, Wilshire Associates
 Mike Patalsky, Wilshire Associates
 Brad Atkins, Franklin Park
 Amy Moskowitz, Counsel to the Board

CALL TO ORDER

Ms. Simpson called the open session of the Board to order at 8:34 a.m.

DETERMINATION OF MEETING

The Board unanimously approved a motion to move into closed session at 8:35 a.m. for the purpose of discussing the investment of public funds, pursuant to Maryland Code, State Government Article, 10-508(a)(5).

Ms. Simpson called the open session of the Board to order at 11:25 a.m.

Approval of the Minutes: Mr. Renne moved and Mr. Adler seconded, and the Board unanimously approved the minutes of the July 24, 2009 meeting.

Annual Review – All Vendor/Manager Contracts: Ms. Menke discussed the Board's policy to review all vendor contracts annually and presented Staff's recommendation for changes to specific vendor contracts. She discussed Staff's evaluation of Wilshire Associates and recommendation that the Board issue a Request for Information to survey the marketplace to assess the services currently being provided by consultants, fees charged, and the role consultants play given a staff structure similar to ours. Following discussion, Mr. Renne moved and Mr. Buddle seconded and the Board unanimously approved the following resolution:

0909-04 *Resolved, That the Board approves issuing a Request for Information for general consulting services for the ERS.*

Mr. Potter presented the annual review of Northern Trust and noted that Staff is pleased with the service level and the team assigned. He discussed the securities lending program and recommended the Board consider amending Northern's contract to remove the restriction on the amount of securities available to lend. Ms. Herman informed the Board that Northern was willing to increase the securities lending revenue split earned by the ERS to 80% from 75%. The change is estimated to result in an increase in revenue of \$30,000 per year. After the Board's discussion of the recommendation, Mr. Adler moved and Mr. Renne seconded and the Board unanimously approved the following resolution:

0909-05 *Resolved, That the Board approves amending the Northern Trust contract to remove the restriction on the amount of securities available to lend and increasing the securities lending revenue split earned by the ERS to 80%.*

Mr. Esen presented a summary of the result of recent fee negotiations with the Public U.S. equity managers due to the reduction in assets under management. After discussion, Mr. Sharpe moved and Mr. Renne seconded, and the Board unanimously approved the following resolution:

0909-06 *Resolved, That the Board approved amending the following contracts: Goldman Sachs, Systematic and Numeric Small-Mid.*

Staff also discussed the recommendation to evaluate the addition of ETFs, CDs and Treasury securities to the approved investment offerings through the self directed brokerage windows in the Retirement Savings Plan and the Deferred Compensation Plan. In addition, Staff notified the Board of ING's willingness to discuss lowering the fees paid by participants in the PIMCO High Yield and the Oppenheimer Global Funds by offering lower cost share classes. Staff will brief the Board on the results of their negotiations once completed.

Mr. Esen discussed Staff's recommendation to issue a Request For Information for investment counseling services for the Retirement Savings Plan now that the GRIP election period has passed and the number of participants who elected to transfer is known. After discussion, Ms. Menke moved and Mr. Adler seconded and the Board unanimously approved the following resolution:

0909-07 *Resolved, That the Board approves a search for an investment counseling provider for the Retirement Savings Plan.*

ERS - Fixed Income & Hedge Funds Funding: Mr. Brubaker presented an updated implementation schedule for transferring funds from the core and high yield fixed income managers to the long duration and opportunistic sectors based on the current market environment. After further discussion, Mr. Bader moved and Mr. Renne seconded, and the Board unanimously approved the following resolution:

0909-08 *Resolved, That the Board approves the revised timeline for the implementation of the fixed income structure.*

ERS - GRIP Annuity Option: Ms. Herman briefed the Board on the difficulty with implementing the County Code requirement that the Board offer a “life only” annuity option to GRIP participants through an insurance company. Staff recommends the Board request the Plan Administrator work to amend the County Code to eliminate the life only restriction as soon as possible and consider offering the annuity via the Employees’ Retirement System. After discussion, Ms. Menke moved and Mr. Renne seconded, and the Board unanimously approved the following resolution:

0909-09 *Resolved, That Staff notify the Plan Administrator, via the Director of Human Resources, that the County Code should be amended to eliminate the life only restriction as soon as possible and consideration should be given to offering the annuity via the Employees’ Retirement System.*

ERS – FY10 Cash Flow Forecast: Mr. Potter presented the cash flow projections for FY10 reflecting monthly sources of cash and projected benefit payments. Based on the cash flow projections, the amount of cash needed to fund payments in FY10 is \$55 million. Staff recommends the Board continue to fund the monthly cash shortage through the redemption of passive index funds when available or from active managers who are overweight versus the Board’s Manager Funding Policy. After discussion, Mr. Adler moved and Mr. Buddle seconded, and the Board unanimously approved the following resolution:

0909-10 *Resolved, That the Board approves transferring cash required to fund payments on a monthly basis, as needed, from the passive index funds when available or from active managers who are overweight versus the Board’s Manager Funding Policy.*

ERS – Sudan – Annual Report to Council: Ms. Menke briefed the Board on the required annual report to the County Council on the impact the Sudan Divestment legislation has had on the ERS. She presented the draft report, and after discussion, Ms. Menke moved and Mr. Adler seconded, and the Board unanimously approved the following resolution:

0909-11 *Resolved, That the Board approves transmittal of the Sudan Divestment Report as of June 30, 2009, as presented, to the County Council.*

2010 Meeting Schedule: The Committee discussed the 2010 meeting schedule. Mr. Sharpe moved and Ms. Menke seconded, and the Board unanimously approved the following resolution:

0909-12 *Resolved, That the Board approves the 2010 meeting schedule as presented.*

Staff Structure: Ms. Herman briefed the Board on the current staff structure as well as the proposed structure based on a survey of industry best practices. She requested the approval to add an additional position, investment analyst, to oversee the defined contribution fund offerings as well as provide support to the portfolio managers. After discussion by the Board, Ms. Menke moved and Mr. Beach seconded and the Board approved the following resolution:

0907-13 *Resolved, That the Board approves the addition of an investment analyst.*

Election of Officers: Ms. Menke discussed the current Board officers and moved, seconded by Mr. Beach, and the Board unanimously adopted the following resolution:

0909-14 *Resolved, That the Board approves the following slate of officers pursuant to the Board bylaws.*

Board Chair:	Ms. Simpson
Board Vice-chair:	Mr. Renne
Board Secretary:	Mr. Adler

ERS Performance Review: Mr. Brubaker discussed the current market environment and the performance of the ERS as of June 30, 2009 compared to the benchmarks and peers. Mr. Atkins provided an overview of the private equity sector highlighting fundraising levels, use of leverage, and recent regulatory actions being proposed.

There being no further business of the Board, the open meeting session was adjourned at 12:30 p.m.

Respectfully submitted,

Joseph Adler, Secretary